

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of )  
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Open Network Architecture Tariffs )  
of the Bell Operating Companies )

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY  
CC Docket No. 92-91

REPLY OF BELL ATLANTIC<sup>1</sup>

Because they have few substantive comments on the rates in Bell Atlantic's Open Network Architecture ("ONA") tariff, most of the parties confine the bulk of their comments to attacks on a tool used to help develop the costs underlying those rates, the Switching Cost Information System ("SCIS"). They erroneously assert that the extent of the redactions to the SCIS model and the Arthur Andersen study of SCIS<sup>2</sup> made meaningful analysis of the cost figures impossible. They also claim that the model provides too much flexibility to manipulate results, even though the model was carefully constructed to limit variables to those factors that legitimately vary from company to company.

Where the parties do address the rates, they claim that the wide variation among regions in charges for similar services shows that the Commission allows the Bell operating companies ("BOCs") too much ratemaking latitude, and that the rates

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<sup>1</sup> The Bell Atlantic telephone companies ("Bell Atlantic") are The Bell Telephone Company of Pennsylvania, the four Chesapeake and Potomac telephone companies, The Diamond State Telephone Company and New Jersey Bell Telephone Company.

<sup>2</sup> Arthur Andersen & Co., SC, *Independent Review of SCIS/SCM*, July 1992 ("Arthur Andersen Study").

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themselves are unreasonable.<sup>3</sup> These comments ignore the very different cost and demand characteristics of the seven regional BOCs. In the post-divestiture environment, parties have no reason to expect nationwide uniformity of rate levels.

The complexities of switch technology require the BOCs to use a sophisticated model to determine the costs of each unbundled switched service and feature. The BOCs engaged Bell Communications Research, Inc. ("Bellcore") to develop and maintain such a model, SCIS, and Bellcore spent some \$22 million in that effort. In order to defray some of those costs, Bellcore has licensed the SCIS software both in the United States and abroad, for which it currently receives some \$6 million in annual license fees. This shows that telephone companies the world over find the SCIS model valuable in their own cost development.

In addition, at the Commission's request, the accounting firm of Arthur Andersen & Co. conducted an exhaustive review of the model and found that it is "fundamentally sound and provides reasonable estimates of switching system investment."<sup>4</sup> The Commission staff has had the benefit of Arthur Andersen's

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<sup>3</sup> See, e.g., The General Services Administration's Comments to Direct Case ("GSA") at 7-8, Opposition of the Ad Hoc Telecommunications Users Committee to Direct Cases ("Ad Hoc") at 7-9, Opposition to Direct Case of MCI Telecommunications Corporation ("MCI") at 17-21.

<sup>4</sup> Arthur Andersen Study at § 1.5.

detailed analysis, as well as access to the complete SCIS model for analysis.<sup>5</sup>

Despite their claims to the contrary,<sup>6</sup> commenting parties have also had access to the relevant portions of the model for the purpose of preparing comments in this proceeding. They received SCIS documentation and were able to perform sensitivity analyses.<sup>7</sup> The Arthur Andersen study provided them with additional sensitivity analysis results. The only information to which the parties did not get access was (1) information that the switch vendors considered competitively sensitive and provided to Bellcore under strict nondisclosure conditions,<sup>8</sup> and (2) the algorithms used in the modeling process, which are proprietary to Bellcore and disclosure of which would undermine Bellcore's ability to license the model.<sup>9</sup> The latter material would allow a competitor to replicate the model, but it

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<sup>5</sup> AT&T acknowledges that the Commission has sufficient information to complete its analysis. AT&T Comments ("AT&T") at n. 9.

<sup>6</sup> See, e.g., Comments of Sprint Communications Company LP ("Sprint") at 4-5, MCI at 28-35, Ad Hoc at 4-7.

<sup>7</sup> Parties were able to perform sensitivity analyses using surrogate inputs in order to ascertain the validity of the model in the costing process.

<sup>8</sup> Bellcore redacted these portions of SCIS under the direction of the switch vendors.

<sup>9</sup> The United States District Court that addressed disclosure of the SCIS model recognized the commercially-sensitive nature of the algorithms. *Allnet Communication Services, Inc. v. FCC*, Civ. Act. No. 92-1350 (CRR), slip op. at 13-14 (D.D.C. Aug. 31, 1992).

is of little value in determining whether the model appropriately calculates switching costs.

Parties also criticize the SCIS model as providing the BOCs with too much flexibility in adjusting inputs to produce the desired results.<sup>10</sup> They claim that this flexibility amounts to *de facto* deregulation. Nothing can be further from the truth. As Arthur Andersen found, SCIS provides sufficient flexibility to allow each BOC to enter the cost parameters that vary by region,<sup>11</sup> but it does not give the *carte blanche* that the parties claim.<sup>12</sup> Without the ability to use region-specific variables, SCIS would produce skewed outputs and result in over-payments to some BOCs and underpayments to others.<sup>13</sup>

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<sup>10</sup> See, e.g., Sprint, App. at 1-3, Ad Hoc at 7-9, Comments on Direct Case of Metromedia Communications Corporation at 7-9 ("Metromedia"). GSA, on the other hand, found the use of variables in the model and in the rate development to be reasonable. GSA at 3-6.

<sup>11</sup> Arthur Andersen Study at § 1.5.

<sup>12</sup> Sprint expresses concern that the "user adjustment" feature cited in the Arthur Andersen study gives the BOCs flexibility to adjust rates "as they deem fit." Sprint at 2-3. This feature simply provides the ability to base SCIS outputs for specific services on the characteristics of those services in each company. For example, different BOCs may offer different service options. The adjustment feature allowed Bell Atlantic to isolate the costs related to the options it had chosen.

<sup>13</sup> The Commission should reject Allnet's claim that switch engineering is an area of potential manipulation. Comments of Allnet Communication Services, Inc. ("Allnet") at 4. Vendor engineering of Bell Atlantic's switches and subsequent generic updates are uniformly based upon Bellcore's LATA Switching Systems Generic Requirements, FR-NWT-000064, as is the engineering Bell Atlantic undertakes during the installation of those switches.

Bell Atlantic did not vary the application of SCIS from service to service. In addition, the characteristics of the model office used in SCIS remained constant from one service to another. The only inputs Bell Atlantic used in its cost development that varied were those needed to reflect the cost characteristics of specific services and features.<sup>14</sup> All other relevant inputs remained constant from service to service, including overhead loadings.

Bell Atlantic also performed the model office and switch technology mix development in an objective, consistent manner.<sup>15</sup> Bell Atlantic developed a model office for each switch technology in each jurisdiction using a statistically-valid sample of offices.<sup>16</sup> The need for a sample, rather than a study of all switches, stems from the large number of offices in the Bell Atlantic region, compared with the much smaller number in a small company such as Nevada Bell, the company MCI uses for comparison.<sup>17</sup> Inclusion of additional switches would have increased the price of maintaining the model, but it would not have increased its validity.

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<sup>14</sup> Bell Atlantic used no individual "feature inputs" in developing its rate for ANI, the feature WilTel claims was most heavily "manipulated." See Opposition to Direct Cases of WilTel, Inc. ("WilTel") at 17-18.

<sup>15</sup> Bell Atlantic uses the same SCIS model offices and facility mix in developing intrastate costs for a variety of services.

<sup>16</sup> See Bell Atlantic Direct Case at 5 (filed May 18, 1992).

<sup>17</sup> MCI at 16.

Bell Atlantic then determined the forward-looking mix of offices it plans to deploy in each jurisdiction, as reflected in the construction budgets.<sup>18</sup> These projections include some analog switches that are planned to augment existing facilities, although most are digital.<sup>19</sup> The application of this projected technology mix to the SCIS outputs provided forward-looking costs that reflect the appropriate combination of switches.<sup>20</sup>

Finally, AT&T asserts that Bell Atlantic used outdated traffic studies in its cost models.<sup>21</sup> Except for one small area, Bell Atlantic updated all traffic studies in 1990, and that small area has no material effect on rates. Traffic studies are generally updated every three years, and Bell Atlantic plans to perform the next update throughout the region in early 1993.<sup>22</sup>

Some parties object generally to the amount of ratemaking discretion they claim the Commission has given the

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<sup>18</sup> See Bell Atlantic Direct Case at 5.

<sup>19</sup> Because some analog switches are included in Bell Atlantic's projections, MCI and Metromedia mistakenly assume that Bell Atlantic used an embedded switch mix rather than the forward-looking investment Bell Atlantic actually used and which MCI endorses. MCI at 14, Metromedia at 5.

<sup>20</sup> Accordingly, despite the claims of WilTel, neither the switch sample in the model office nor the switch mix used to weight SCIS outputs is subject to "strategic selection." WilTel at 15-17. Use of the same switch-related inputs for all services further prevents any "strategic" use to favor one set of services over others.

<sup>21</sup> AT&T at 13.

<sup>22</sup> AT&T also criticized several BOCs for using outdated versions of SCIS. *Id.* at 10-11. Bell Atlantic performed its BSE cost studies in the second half of 1991 for filing on November 1, 1991 using the most recent SCIS update.

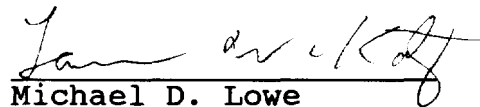
BOCs.<sup>23</sup> That issue is not appropriately raised in this proceeding, which is confined to a review of the ONA tariffs filed in response to the standards the Commission has established.<sup>24</sup> The Commission's review here should be confined to whether each BOC properly applied the existing ratemaking standards and used a ratemaking methodology which produced just and reasonable ONA rates.

Accordingly, Bell Atlantic has fully justified the rates for its ONA services, and the Commission should approve the ONA tariffs.

Respectfully submitted,

**The Bell Atlantic Telephone  
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<sup>23</sup> See, e.g., MCI at 3, Allnet at 4-6, WilTel at 5-13.

<sup>24</sup> Bell Atlantic will respond to the criticisms of the Commission's ratemaking requirements for new BSEs in opposing the reconsideration petitions which MCI and WilTel filed on September 21, 1992 in CC Docket No. 89-79.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing "Reply of Bell Atlantic" was served this 13th day of November, 1992, by delivery thereof by first class mail, postage prepaid, to the parties on the attached list.

  
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